

Brock Cooper, General Counsel for Veterans United Home Loans, Testimony to the Subcommittee on Economic Opportunity of the House Committee on Veterans Affairs

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Good morning, Chairman Arrington, Ranking Member O'Rourke and members of the committee. My name is Brock Cooper, and I am the general counsel for Veterans United Home Loans.

I would like to thank you for allowing me the opportunity to come before you today to discuss this important issue regarding lending practices that impact our service members, our Veterans and our military families. Before working for Veterans United, I served in the Missouri Army National Guard from 2000 to 2006, achieving a rank of Sergeant E-5. During my service in the National Guard, I was called to active duty for an 18-month period from 2003 to 2005 for stateside military police law enforcement duty at Fort Bragg in North Carolina. Additionally, I was activated for Hurricane Katrina relief in 2005.

I purchased my first home in 2008 using the VA Loan, and used the VA Interest Rate Reduction Refinance Loan (IRRRL) program to help lower my monthly payment and interest rate on that initial home. I have subsequently used the VA Loan to finance the purchase of three other homes for my family. I have a current VA Loan, and fully understand the pressures of the marketing practices employed by some industry participants around the IRRRL program.

Two years after separating from the National Guard, I joined Veterans United. We are a full-service, family-owned lender, headquartered in Columbia, Missouri. We have nearly 2,400 employees nationwide and are licensed in all 50 states and Washington D.C. Our primary mission is helping Veterans, service members and their families achieve the American dream of homeownership. We have been the nation's No. 1 VA purchase lender each of the past two fiscal years, closing more than 37,000 purchase loans in VA fiscal year 2017 alone. We have now closed more than 165,000 VA purchase loans since originating our first VA loan in 2003. Today, Veterans United represents 1 out of every 10 VA purchase loans originated. These stats are reflective of our mission to help Veterans and their families get the most from their hard-earned home loan benefit.

The Success of the VA Home Loan Program

Since our first VA Loan in 2003, we can attest the VA Loan is not like other mortgages. It differs from conventional and all other federal mortgage programs in that it is an earned service benefit – not a federal discretionary program – available to our Veterans, qualified active duty personnel and qualified surviving spouses. It is part of a deep bond between those who serve and the taxpayers these Veterans pledge to defend.

The VA Loan program stands out as a true success story. In VA fiscal 2017, the program had a record 740,000 closings, hitting a record \$189 billion in volume.¹ As of today, VA Loans

¹ Veterans Benefits Administration's VA Home Loans web page.
https://www.benefits.va.gov/HOMELOANS/Lender_Statistics.asp

represent 10 percent of the mortgage market.² The program has featured the lowest average interest rate on the market for more than three years, along with the lowest foreclosure rate for more than 10 years.³ At the same time, VA purchase loans are closing within two days of the entire market – 47 days.⁴ These statistics are powerful considering VA Loans represented about 1 percent of the mortgage market as recently as 2007. These facts demonstrate that by and large the VA Loan program is providing the desired benefit that it was designed to deliver.

This is the story we must protect. All decisions about the VA Loan program must be made to ensure we improve this hard-earned service benefit, while making sure the program continues to be healthy and sustainable as it continues to make homeownership possible for America's bravest.

Improvements to the VA IRRRL Program

Veterans United has been involved in the policy discussion surrounding the IRRRL program for many years. Our primary concerns remain that in some instances IRRRLs do not represent a true reasonable value to Veterans, and that serial abuse of IRRRLs could impact interest rates long-term, making it more difficult for Veterans to purchase homes.

At Veterans United, we offer IRRRLs primarily as a way to better serve the Veterans and service members who have initially come to us for purchase loans, and whose loan we are now servicing. As of the beginning of 2018, we service about \$8 billion in VA Loans. To provide perspective, IRRRLs accounted for a little more than 6 percent of our overall loan volume in VA fiscal 2017.

It is critical to remember that first and foremost, the whole idea behind the IRRRL is to put Veterans in a better financial position today than they were yesterday. This is what guides our approach – is this new loan making the Veteran's life better today and in the future? No lender should look only at immediate or long-term benefits. The lender must understand how long the Veteran intends to live in the home, the consequences of interest rate increases or decreases and the overall financial makeup of each customer. It does not matter how much a refinance purports to save a Veteran homeowner if it will take them a decade to recoup loan costs and fees that swell their loan balance. That does not put Veteran homeowners in a stronger financial position because they have less equity or may even be upside down on their home when they go to sell. The same could be said for convincing someone to refinance into an adjustable-rate mortgage without discussing the possibility for future rate increases or the potential for additional costs and decreased equity when later refinancing back into a fixed-rate mortgage.

We believe there is a clear value when Veterans lower their mortgage payments or when they can move from adjustable-rate mortgages to fixed-rate mortgages, as long as they can recoup the

² *EllieMae Origination Insight Report*. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie_Mae_OIR_NOVEMBER2017.pdf. Page 3.

³ *EllieMae Origination Insight Report*. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie_Mae_OIR_NOVEMBER2017.pdf. Page 5 & Mortgage Bankers Association National Delinquency Survey.

⁴ *EllieMae Origination Insight Report*. November 2017. https://static.elliemae.com/pdf/origination-insight-reports/Ellie_Mae_OIR_NOVEMBER2017.pdf. Page 4

costs and fees from that new loan within a reasonable time frame and do so after a reasonable time period from the initial close.

This is an important way we look at refinance loans – there is not a strict, one-size-fits-all savings because there is a not a one-size-fits-all Veteran or military family.

In addition, an IRRRL serves a valuable function outside of reducing interest rates – it accounts for life’s changes and challenges. Veterans and service members have a unique service benefit in using IRRRLs to account for these changes and challenges, such as the death of a spouse, marriage or a divorce. These are three common reasons to use the IRRRL to clean up a title, and we feel strongly they should be maintained.

We all know of serial refinance companies that are aggressively contacting Veterans and their families with misleading mortgage offers. Three primary problems are caused by this activity: long-term financial harm to the Veteran; increased interest rates for Veterans purchasing a home; and long-term harm to the VA Loan program.

The harm to the Veteran homeowner may be a recoupment period that is unjustifiably long, leaving them owing more than their home is worth or higher future costs because they’ve been convinced to refinance their fixed-rate loan into an ARM.

The harm to Veterans purchasing a home is higher interest rates. When Veterans with a VA Loan are convinced to refinance again and again, the company making the original mortgage must buy it back from the secondary market, often paying steep penalties. While hard to quantify, this cost is inevitably passed on to Veteran homebuyers in the form of higher interest rates.

These higher interest rates are also a negative to the overall program. High interest rates make the program less competitive in the marketplace, and that hurts the VA Loan program’s ability to invest for the future.

Maintaining Strong Service Benefits for Veterans, Service Members and their Families

We appreciate that the VA Loan Program’s leadership and Ginnie Mae’s leadership are actively engaged on this issue and committed to protecting Veterans while ensuring they have full access to their hard-earned benefits. We support the agencies’ joint task force, and we believe that Ginnie Mae’s recent decision to pool IRRRLs made within six months of the original closing differently is a step in the right direction. We support the quick call to action Ginnie Mae has made to address churning of VA loans, including Ginnie’s move this past month to incorporate cash-out refinances into their refinance pooling policy. These rules would appear to address most of the problems affecting Veterans using their IRRRL benefit; the only portion we feel is still missing is the recoupment of refinance costs and fees within a set time frame.

We support efforts to empower the VA to make program changes in a more expeditious manner. Today, Ginnie Mae, Fannie Mae, Freddie Mac and the FHA can make corrective program guidance decisions relatively quickly for a wide range of topics pertaining to the programs they administer. Alternatively, the VA has to go through a full, formal rulemaking process for relatively narrow, technical program changes that could be much more easily corrected through

these other programs. This can prevent needed narrow fixes that would benefit our Veterans from ever taking place. While rulemaking should still be required for extensive program changes, we support a more expeditious process for lesser ones.

We would urge that any Congressional fixes not become too “in the weeds” or prescribe specific requirements that could potentially cut off the VA Home Loan benefit for some Veterans who have earned it. Instead, Congress should empower the VA to quickly implement new reasonable guidelines for IRRRLs given the VA’s vast experience with the program and the Veterans it benefits, and those guidelines can be adapted over time. Mortgage markets do change and Congressional legislation, once enacted, can be set for 10 or even 20 years. A solution must work well this year, next year and 10 years down the road. We see instances time and again where rules that consider the unique circumstances of each Veteran create real value for our military families.

The Next 70 Years of the VA Home Loan Program

Members of this Committee, the IRRRL is an important aspect of a hard-earned service benefit created more than 70 years ago. The entire premise of the IRRRL is to provide a no-frills, low-cost loan to help Veterans save money, strengthen their overall financial health and adjust to life’s unforeseen events, while not hurting the ability of fellow Veterans to make their own homeownership dreams a reality. Unfortunately, loans are being made that fail to live up to the spirit and intent of this long-cherished service benefit.

Veterans United believes reasonable seasoning and recoupment periods are essential to protect Veterans and the long-term viability of the VA Loan program and to ensure Veterans are clearly benefitting from a VA refinance. To date, Ginnie Mae has addressed the seasoning requirements, and we believe VA is best suited to address a recoupment period. We look forward to helping the VA Loan Guaranty Program, Ginnie Mae and other stakeholders in any way we can to best serve those who have served us.

Finally, it’s worth noting that those entering the military take an oath of office very similar to the oath taken by Members of the House: all swear to “support and defend the Constitution of the United States against all enemies, foreign and domestic, bearing true faith and allegiance to the same.”

All serve, of course, but those in the military pledge their very lives in the process. We are all here to ensure that those pledging so much receive the very best from us in return.

Thank you again, Mr. Chairman and the committee, for allowing me to come before you today.